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PIPER MARBURY RUDNICK & WOLFE LLP

1200 Nineteenth Street, N.W.
Washington, D.C. 20036-2412
www.piperrudnick.com

PHONE (202) 861-3900
FAX (202) 223-2085

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KENNETH G. STARLING
kenneth.starling@piperrudnick.com
PHONE (202) 861-3830

February 29, 2000

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VIA HAND DELIVERY

Surface Transportation Board
Office of the Secretary
Case Control Unit
Attention: STB Ex Parte No. 582
1925 K Street, N.W.
Washington, DC 20423-0001

Re: Statement of General Motors Corporation
STB Ex Parte No. 582

Dear Sir or Madam:

Please accept for filing the enclosed original and ten (10) copies and an electronic version (on a 3.5 inch floppy diskette in Word Perfect 7.0 format) of the written statement of General Motors Corporation in connection with the hearing in the above-captioned matter. The witness for General Motors Corporation, Mr. Nicholas P. Matich, is scheduled to appear on March 9, 2000, at 10:00 a.m.

Please call me if you have any questions about this statement or Mr. Matich's appearance at the hearing.

Thank you.

Respectfully,

Kenneth G. Starling

Kenneth G. Starling

KGS/dfr
Encls.

BEFORE THE SURFACE TRANSPORTATION BOARD

STB EX PARTE No. 582

GENERAL MOTORS CORPORATION
STATEMENT ON RAIL CONSOLIDATIONS

NICHOLAS P. MATICH
EXECUTIVE-IN-CHARGE
NORTH AMERICAN OPERATIONS
PRODUCTION CONTROL/LOGISTICS

MARCH 9, 2000

General Motors Corporation ("GM") is one of the largest shippers in North America. GM produces over five million cars and trucks a year in North America and ships approximately 24,000 per day. In addition to its engine and component plants, GM has 31 vehicle assembly plants at 29 locations throughout North America. GM spends over $4 billion annually for transportation services, and $1.2 billion of that is for rail-related service. GM is totally dependent on reliable, economical transportation service, both for the delivery of an enormous volume of parts and materials used in production and assembly, and for the delivery of its finished vehicles and other products to market.

GM appreciates the opportunity to appear before the Board to offer its perspective on the structure and performance of the North American railroad industry. At the outset, GM states that it favors competition over regulation and supports competition in all forms, including service-oriented competition. In a market in which competition occurs on the basis of service, better service will win a firm more business. GM's view is that deregulation of the railroads has served the economy well; however, as this statement illustrates, the railroads have not sustained a level of service performance that meets the reasonable requirements of customers like GM. Competition certainly provides the railroads the incentive to attain this service level, but GM's experience is that rail consolidation has recently been associated with deterioration of the railroads' service performance. The Board should challenge the railroads collectively to raise their standard of performance for all shippers.

In recent years, the declining quality of rail service has forced GM to switch to higher-cost alternative modes of transportation in North America. In the last year, the amount of rail service GM purchased was approximately $270 million less than it purchased in 1997; this was largely because merger-related problems made it necessary for GM to switch from rail to costlier truck transportation. In 1997, for example, 70% of GM's outbound vehicle shipments were by rail. GM would have held to or increased that level of usage if we could have relied on rail for our requirements. Unfortunately, over the last two years the percentage of vehicle shipments that move by rail has been reduced by 7 percentage points to 63% of the outbound total. GM has had no choice but to substitute other modes at premium cost in response to unreliable rail service.

As the largest manufacturer in North America, GM has designed state-of-the-art systems for efficiently moving parts to the point of assembly and for quickly moving finished vehicles to consumers. For example, GM has invested extensively in the establishment and operation of "just-in-time" ("JIT") manufacturing methods, in which parts are delivered to the right place on the production line at precisely the right time, minimizing inventory and handling costs, among other benefits. JIT is far more than a delivery system - - it is an entire production process of which shipping and receiving are only a part. Two components are essential to this process: one component is parts suppliers who consistently build to schedule. The other component is consistent transit. JIT production is not possible without stability of parts delivery, and stability of parts delivery is not possible without reliable transportation service.

Another time-and-transportation sensitive system is GM's Fast-to-Market initiative to deliver new cars and trucks to customers promptly. Reliable transportation service is essential to the success of this program, just as it is to JIT manufacturing. GM's requirement is for fast, flexible and reliable service across the national network.

Obviously, no system such as JIT production or Fast-to-Market can function properly if the rail delivery of parts is reliable only 70% of the time, but 70% reliability has been GM's recent experience with rail delivery of parts. This poor level of reliability results from a variety of failures, including late deliveries, missed connections, deliveries to incorrect locations, and unavailability of rail cars to receive product when scheduled.

The facts clearly demonstrate that the railroads have failed to live up to their customers' reasonable service expectations. Premerger representations and expectations that the railroads could avoid disruptions have not been met, and specified benefits of consolidations have taken entirely too long to be realized; so-called "short-term" dislocations of transactions have become entirely too lengthy and costly. In particular, GM has experienced significant disruptions and overall service deterioration from the 1995 Burlington Northern/Santa Fe consolidation, the merger of the Union Pacific and the Southern Pacific systems in 1997, and the 1999 division of the Conrail system between Norfolk Southern and CSX Transportation.

The BNSF consolidation was the least harmful to GM, in part because it serves the fewest GM facilities; however, BNSF's own data shows that customer service deteriorated or at best was unimproved in the first three years following its consolidation. Although the BNSF consolidation did not significantly disrupt the inbound flow of material to GM's manufacturing and assembly facilities, bottlenecks and delays did adversely impact the outbound shipment of vehicles.

The UP/SP transaction caused an unprecedented degree of disruption, uncertainty and cost for GM, in both inbound and outbound transportation. The total costs incurred by GM as the result of poor railroad performance following that transaction exceeded $100 million. Because the UP/SP failed to function effectively, GM lost production at plants, was forced to purchase trucking and air charter services at a premium, experienced delays of rail cars in transit for the transloading of components, and was required to acquire additional returnable shipping containers to correct the imbalance created in GM's normal use of such containers.

These custom-designed containers and racks warrant a general comment without reference to any specific rail consolidation. They have been developed by GM for the safe and effective transportation of many kinds and shapes of parts, from engines to body panels. The containers not only protect the parts in transit, but also are moved directly to the assembly line as an integral part of the JIT assembly process. These containers are required for transporting the parts to the assembly plants, but also must be returned efficiently and reliably to the locations where they are needed for parts shipment; without the containers available, GM must ship parts in less efficient, more costly expendable packaging or not ship parts at all. A number of recent rail consolidations have created disruptions and delays in the return of these containers. And in the past year, scheduled container returns by rail have failed to arrive on time as frequently as they have arrived on time - - in other words, across the board, this critical service is reliable only 50% of the time!

As the result of the UP/SP consolidation, in August 1997 GM was required to establish its own rail operations control center, operating seven days a week in order to make up for the lack of information available from the railroad about GM's shipments and vehicle locations. Examples of problems handled by the operations control center include the failure of rail cars to arrive at plants as scheduled and the resultant buildup in inventory of outbound vehicles, the failure of parts to arrive at the right plants, and the delay and "loss" of vehicles in transit. Other extraordinary measures that needed to be taken with respect to the outbound delivery of vehicles included the creation of off-site storage areas, the holding of vehicles at origin and intermediate points, the double handling of vehicles (which exacerbated transit quality hazards), and the devotion of extensive resources to the tracking of vehicles.

One noteworthy example of disruption of GM's shipment of finished vehicles by the UP/SP merger involved Mexican assembly plants. Unable to secure reliable rail transportation across the border following that transaction, GM resorted for the first time in its history to the use of ocean-going vessels to move vehicles assembled in Mexico to the United States: between August 1997 and July 1999, sixty-two shiploads were made to the east coast ports of Jacksonville, Florida and Brunswick, Georgia; and forty-one shiploads were made to the west coast ports of Port Hueneme and Benicia, California. And to reach the ships, GM was required to truck vehicles 600 miles to the west coast of Mexico and 500 miles to the east coast. This ocean transportation necessitated by the UP/SP consolidation imposed a premium cost (that is, above normal rail cost) of approximately $20 million on GM.

The adverse effects caused by the division of Conrail between Norfolk Southern and CSX Transportation have also been significant. GM has been required to operate its control center seven days a week to deal with the problems created by failures in the railroads' information systems. The cost of operating the control center alone in connection with the Conrail division has already exceeded $1 million and is continuing to mount. In addition, GM has been forced to arrange extraordinary and costly substitute transportation whenever rail performance failures have occurred. These substitutes have included 248 special trains, 30,000 truckloads of finished vehicles, and thousands of additional air charters for parts to keep the assembly plants operating. The additional truck transportation alone has cost over $15 million to date. Suppliers of materials like metal stampings, fascia and plastic parts, which were already expensive to ship by rail, have now switched away from rail to even more expensive truck delivery service simply because of the inconsistency and unreliability of rail transit times. Such increased trucking costs for parts are now becoming imbedded in GMs' cost structure.

One example of this diversion occurred at GM's vehicle assembly plant in St. Therese, Quebec, which obtains metal stampings - - door and rear-end panels - - from two major suppliers in Indiana. Shortly after the Conrail division, the plant could no longer depend on rail service for parts delivery. Rail service has now deteriorated to the point that no rail shipments of these parts, which are otherwise ideally suited to rail transport, are being made; these Indiana suppliers are using trucking exclusively in order to meet the St. Therese assembly plant's needs. GM must pay a premium for this trucking, of course, which has been about $1.4 million to date.

Another illustration of costs incurred as the result of the Conrail transaction involves engines for GM's Lansing, Michigan assembly complex, which produces some of GM's best-selling cars. The engines come from a plant in Mexico. Within days of the June 1999 Conrail division, rail service for the shipment of these engines from Mexico became so unreliable that GM had to switch to trucking the engines, including their specialized containers, from Mexico to Lansing. The freight penalty incurred as a result was $1.3 million as of December. It is, of course, better to incur the premium cost of trucking than to incur the greater penalty of a plant shutdown, but reliable rail service is the correct and most cost-efficient answer. GM continues to run test loads on the railroad to see if a return to rail is warranted, but so far it is simply too risky to the Lansing plant operations to consider relying on rail delivery of these engines.

Outbound shipments have also been adversely affected by the Conrail division. Particularly noteworthy is the added delay. GM has experienced a 20% increase in the number of vehicles that are in transit at any given time - - in the transportation pipeline, so to speak. Furthermore, over the last three years, the weighted average vehicle transit time has increased to an all-time high, due mainly to deteriorating rail service. The increase in vehicle transit time is totally incompatible with GM's focus on faster delivery of finished vehicles to customers, and it has an adverse effect on goodwill and sales. During a time when overall productivity in our country is increasing, this deterioration in the time it takes the railroads to deliver a vehicle is unacceptable.

Rail inefficiencies have adversely affected GM's work force as well. The truck docks at plants are more congested where the more reliable truck service must be used instead of unreliable rail service, which heightens safety risks to employees. Also, movement of parts from trucks to the assembly lines results in the increased use of fork lifts in the aisles of plants, which increases safety concerns. And, more overtime has been required to deal with transportation disruptions. These effects must be counted along with the societal burdens imposed when truck transport is used to replace rail transport which has failed to provide satisfactory service.

In advance of recent rail consolidations, the railroads have offered general assurances of benefits; examples are that the acquisition of particular lines or operations would reduce delivery times, eliminate congestion, improve rail car turn-around, and improve overall trip transit time and car utilization. Such benefits have not been promptly forthcoming following most recent rail consolidations; rather, post-consolidation dislocations have lasted for years.

An assurance was given to GM in connection with the UP/SP consolidation that delays in and out of Mexico would be few and far between because alternative routings would be available after the transaction. As noted above, however, the disruption of service following the UP/SP consolidation forced GM to resort to trucking and ocean shipping in order to get vehicles from Mexico to the United States. This example offers a striking illustration of both the failure of consolidating railroads to deliver benefits of a transaction and the kind of adverse impact that consolidation has had on GM. On the basis of GM's experience, unless there are substantial advances in railroad information technology, improvements in the allocation of human resources, and detailed operational planning on the part of the railroads, it is naïve to believe that any future consolidation alone will result in better rail service. The railroads' record of failure to provide improved service makes GM wary of any future assurances.

Although long-term efficiency gains have been achieved in some rail consolidations, a high price has been paid by GM and others as the result of "short-term" dislocations and inefficiencies such as those described. In GM's view, the length of such "short-term" post-merger adjustment periods has grown entirely too long, and the effects have grown too severe to be tolerated. In the UP/SP merger, for example, the so-called "short-term" inefficiencies persisted for at least three years. No shipper, including GM, should have to accept a substantial risk of repetition of these post-merger scenarios. GM ships approximately 24,000 vehicles a day - - including the first day following any rail merger - - and it cannot willingly accept years of disruption and uncertainty in order to reap the promise of long-term benefits of rail consolidations.

GM favors competition and disfavors any movement toward re-regulation of the railroads. Our opinion is that the public interest has generally been well served since rail deregulation. Nevertheless, GM expects reliable service from its transportation service providers. And GM would buy more service from the railroads if the railroads could bring their level of reliability up to reasonable levels - - on-time service at least 90% of the time would satisfy our industry's requirements. Not only would the improved service gain the railroads more business from GM and others, but the increased business volume would strengthen their financial viability.

The marketplace demands speed, quality and reliability from GM as conditions of its own competitiveness. As a shipper, GM must also demand speed and reliability from its transportation service providers. Service competition among rail transportation providers is vital to GM, and GM believes that the competitive market should motivate the railroads to improve their level of service performance. What was acceptable performance two years ago, by definition, will be noncompetitive in today's and tomorrow's marketplace. GM submits that a minimum standard of service should prevail throughout the railroad industry. The Board should challenge the railroads to focus their efforts to bring industry-wide performance up to levels which will meet the reasonable needs and expectations of their customers and which will support North American economic growth. Rail consolidations must not detract from the achievement of this goal.

GM's view of the future of the rail industry is not one of mergers, less competition, more regulation, and an industry focus diverted from customer service. Rather, we would expect the industry, individually and collectively, to focus their leadership energy and resources on providing transportation service that meets and exceeds our expectation for speed, flexibility and reliability. It is our view that this is a collective challenge, one that requires the current rail providers to work together in the interest of customer service. There is little value in "pockets of excellence" when the customer view is of total network performance.